

Report of the Auditor-general to the Limpopo Provincial Legislature and the council on Mookgophong Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of Mookgophong Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a

basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to physically verify certain other movable assets included in the accounting records of the municipality. The municipality's records did not permit the application of alternative means. Consequently I was unable to determine whether any adjustments to other movable assets stated at R3 535 699 in note 10 to the financial statements were necessary.
7. I was unable to obtain sufficient appropriate audit evidence for the derecognition of infrastructure assets. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the property, plant and equipment assets stated at R199 363 882 in the financial statements was necessary.

Revenue

8. The municipality did not update its accounting records with regards to the valuation roll. Consequently, revenue was understated and receivables were understated by an unknown amount. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Provisions

9. *South African Standards of GRAP 19, Provision, Contingent liabilities and Contingent assets* requires that a provision be recognised when an entity has a present obligation as a result of a past event. The municipality recognised a provision for the rehabilitation of the entire landfill site including the unused portion for which there is no present obligation. Consequently, provisions are overstated by R7 110 171(2013:R6 269 342) and property, plant and equipment is overstated by R5 738 863(2013:R5 453 268). Additionally, there is a resultant impact on the surplus for the period and the accumulated surplus.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mookgophong Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of MFMA and the DoRA.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

12. As disclosed in note 45 and 46 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Fruitless and wasteful expenditure

13. As disclosed in note 51 to the financial statements, fruitless and wasteful expenditure to the amount of R2 068 473 was incurred due to interest on late settlement of accounts.

Material impairments

14. As disclosed in note 5 to the financial statements, the municipality made a material impairment of R14 006 589 to consumer debtors as a result of inadequate debt collection practices.

Going concern

15. The statement of financial performance indicates that the Mookgophong Local Municipality incurred a net deficit of R15 234 878 during the year ended 30 June 2014 and, as of that date, the municipality's current liabilities exceeded its current assets by R8 621 635. These conditions, along with other matters as set forth in the note 48 indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

18. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

19. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Social and Community Development on pages x to x
- Technical Services on pages x to x

21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material findings in respect of the selected development objectives are as follows:

Social and Community Development

Usefulness of reported performance information Presentation

25. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Measures to improve performance for a total of 56% of basic service delivery were not reflected in the annual performance report. This is due to a lack of review of reported performance information by senior management and the audit committee. The municipality's records did not permit the application of alternative audit procedures

Consistency

Section 41(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 27% the reported indicators and 67% of the reported targets were not consistent with those in the approved integrated development plan. This was due to inadequate review of the presentation of the annual performance report by management.

Measurability

Performance indicators were not well defined

26. The FMPPI requires that performance indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 33% (> 20%) of significantly important indicators in relation to social and community services were not well defined. This was due to a lack of proper systems and processes and technical indicator descriptions.

Performance targets not verifiable

27. The National Treasury FMPPI requires that performance targets performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 33% (> 20%) of significantly important indicators in relation to social and community services were not verifiable. This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to lack of standard operating procedures for the accurate recording of actual achievements and frequent review of validity of reported achievements against source documentation.

Technical Services

Usefulness of reported performance information

Presentation

29. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Measures to improve performance for a total of 34% of basic service delivery were not reflected in the annual performance report. This was due to performance targets set were not in line with the available resources.

Consistency

30. Section 41 (c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 73% of the reported indicators and 73% of the reported targets were not consistent with those in the approved integrated development plan. This was due to inadequate review of the presentation of the annual performance report by management.

Measurability

Performance targets not specific

31. The National Treasury FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance and be measurable. A total of 59% (>20%) of the significantly important targets in relation to technical services were not specific. This was due to a lack of proper systems and processes and technical indicator description

Performance targets not measurable

The National Treasury FMPPI requires that performance targets must be measurable. We could not measure the required performance for 59% (>20%) of the significantly important targets in relation to technical services. This was due to a lack of proper systems and processes and technical indicator description

Performance indicators were not well defined

32. The FMPPI requires that performance indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 77% (> 20%) of significantly important indicators in relation to technical services were not well defined. This was due to a lack of proper systems and processes and technical indicator descriptions.

Performance targets not verifiable

33. The National Treasury FMPPI requires that performance targets performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 77% (> 20%) of significantly important indicators in relation to technical services were not verifiable. This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

34. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

35. Significantly important targets with respect to selected development objectives for social and community services and technical services were not reliable when compared to the source information and evidence provided. This was due to lack of standard operating procedures for the accurate recording of actual achievements and frequent review of validity of reported achievements against source documentation.

Additional matter

36. I draw attention to the following matter:

Achievement of planned targets

37. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development objectives reported in paragraphs xx to xx of this report.

Compliance with legislation

38. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual reports

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Budget

40. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Internal audit

The internal audit unit did not report to the audit committee on matters relating to compliance with the DoRA, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

41. Reasonable steps were not taken to prevent unauthorised expenditure ,irregular expenditure ,fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act
42. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Human resource management

- 43. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
- 44. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
- 45. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14 (2)(b).
- 46. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA section 67(d).

Procurement and contract management

- 47. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
- 48. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
- 49. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
- 50. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

Revenue management

- 51. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Assets Management

- 52. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

- 53. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

- 54. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

- 55. The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- 56. The accounting officer developed an action plan to address internal control deficiencies however the plan was not adequately monitored as some of the prior year audit report matters were not implemented.
- 57. The accounting officer did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, key position in the technical and corporate section were left vacant.

Financial and performance management

- 58. The municipal did not implement controls over daily and monthly processing and reconciling of transaction
- 59. The municipal did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- 60. There was inadequate review and monitoring of compliance with applicable laws and regulations
- 61. The municipality did not adequately design and implement formal controls over IT system to ensure that antivirus software is updated regularly and protected information

Governance

- 62. Those charged with governance did not ensure that management adequately implemented the recommendations of the prior year internal and external audit reports to adequately address internal control deficiencies and recommend corrective action effectively.

Auditor-General

Auditor-General

Polokwane

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

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